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Statement of Eric Rosenberg, TransUnion

To the Michigan Office of Financial and Insurance Services, Commissioner Frank M. Fitzgerald

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Thank you for the opportunity to appear in this series of hearings established to gather information on the use of consumer credit history to set insurance rates and the affect of this practice on consumers in Michigan. TransUnion supports the use of credit for insurance underwriting purposes and recognizes that the increased use of credit reports in auto and property and casualty insurance underwriting decisions, together with use of scoring models that rely on the information in those credit reports, is a proper subject for the attention of consumers and elected representatives.

In my remarks today, I would like, first, to give you some background on TransUnion; second, to cover some credit report basics; third, to review the benefits of credit bureau-based scoring models, and finally, to address some of the policy challenges that we see arising out of the use of credit-bureau based scoring systems.

TransUnion Background

TransUnion is a leading global information solutions provider with 3600 employees worldwide and 64 in our Farmington Hills and Troy, Michigan offices. For over 30 years, TransUnion has helped consumers and businesses to effectively manage their financial risks and capitalize on market opportunities with innovative credit decisioning tools and information. In addition to offering the most accurate and reliable credit information available, leading businesses around the globe turn to TransUnion for a comprehensive breadth of products that help manage financial risk.

As one of the three principle consumer reporting agencies (CRAs) in the United States, TransUnion maintains consumer credit information and provides this information to banks, credit card companies, lenders, insurance companies, or others when consumers apply for credit or when creditworthiness needs to be established. We do not determine whether consumers will be granted credit or at what interest rate; we merely provide the information necessary to enable credit or insurance decisions.

Credit Report Basics

TransUnion believes that an informed consumer is a smart consumer. Knowing about the credit reporting system, what goes into a credit report, and how to get recourse are important factors in maintaining or increasing a consumers' creditworthiness.

1. Channels to Receive Credit Reports. Consumer reporting agencies provide many channels for consumers to receive their file disclosures. Consumers are able to receive their credit reports 24 hours a day, 7 days a week from TransUnion by phone, mail, or online. In fact, consumers obtained over 4.9 million consumer file disclosures from TransUnion in 2001, over 180,000 in Michigan alone, and the vast majority of those were made at no charge to the consumer. It is important to note that under the federal Fair Credit Reporting Act, Michigan consumers that are denied insurance or are notified of another insurance-related adverse action, and a TransUnion credit report was used in the decision process, may contact us within 60 days of receiving the notice to a free copy of their credit report from TransUnion. I have brought with me copies of the brochure, "Credit Reports, Consumer Reporting Agencies, and the Fair Credit Reporting Act – The Everything You Need to Know guide to consumer right in consumer credit reporting," for consumers who want more information. If consumers want a copy of their TransUnion credit report, they may order their report:
   - By phone by calling 800-888-4213
   - By mail by sending their request to:

     TransUnion LLC
     Consumer Disclosure Center
     P.O. Box 1000
     Chester, PA 19022
   - Online by visiting http://www.transunion.com
2. How to Dispute Information Contained in Credit Reports. If consumers want to dispute an item in their credit reports they can do so directly with TransUnion. Once we receive a dispute, TransUnion and the data furnisher (e.g. credit card company, loan provider) must follow certain procedures to investigate that dispute, for free, within 30 days of receiving that request. If applicable, TransUnion will issue a revised credit report for free

to the individual. I brought with me copies of the pamphlet, "The Credit Reporting Dispute Resolution Process," for those who want more information on disputing information contained in their credit report.

3. How to Get Fraud Victims Assistance. TransUnion knows that being a victim of identity fraud can be a frustrating experience, but our Fraud Victims Assistance Department's (FVAD) knowledgeable and experienced staff can help consumers understand the necessary steps to take. The FVAD walks consumers through the investigation process with credit grantors to restore consumer's credit history to its accurate state.

   The FVAD is the credit industry's first and foremost comprehensive department dedicated to helping identity fraud victims. The FVAD is a centralized TransUnion department dedicated solely to the detection, prevention, and rectification of identity fraud. It is designed to assist and support all victims of fraudulent activity and to put effective preemptive and remedial programs into place. Based in Fullerton, California, the FVAD works with consumers, credit grantors, law enforcement officials, and other credit bureaus to help investigate and prevent identity fraud. Since its inception in 1992, the FVAD has helped more than one million people who were victims or potential victims of identity fraud.

   As soon as consumers know or suspect that they are a victim of identity fraud, they should file a police report and call TransUnion's FVAD toll-free at 800-680-7289. The FVAD reviews consumer's credit file with them and identifies potentially fraudulent accounts and recent fraudulent applications that may have been made in a consumer's name. A protective statement is added to a consumer's credit report to alert future creditors of the fraud. The statement warns them to verify consumer's identification before opening a new account.

   The FVAD also gives consumers a copy of their credit report and the names and telephone numbers of the credit grantors that appear to be joint victims with each consumer. Consumers must advise these creditors of the fraud because creditors may have no knowledge of the fraud until it is reported to them. To identify and possibly prosecute the criminal, creditors may ask consumers to complete some forms.

   Once consumers identify the fraudulent accounts and complete the necessary paperwork, the FVAD works with consumers and the credit grantors to remove all the fraudulent activity from their credit file. The FVAD helps consumers to the fullest extent possible, but each victim also has certain responsibilities. By working with credit grantors to identify fraudulent accounts, consumers can greatly reduce this crime's affect. For more information on fraud victim's assistance, visit www.transunion.com.

The Benefits of Credit Bureau-Based Scoring Systems

Implementation of automated decision-making systems using consumer credit report information provides several important benefits to users – lenders, auto and property and casualty insurers – and to consumers.

1. Objectivity in insurance decisioning. Credit bureau scoring models are based exclusively on objective credit bureau-based information and do not use (nor do credit bureau records contain data on) race, gender, or national origin. However, it is also important to note what credit bureau records do contain: factual account payment information from thousands of financial institutions and retailers, reported each month. Approximately 1.5 billion individual updates of account information are processed each month. At TransUnion we update our entire national database on a one-week cycle so that updates received from lenders are very quickly moved onto the consumer's file. Individual files also contain inquiry information: record of recent inquiries from businesses to which that consumer made an affirmative application for credit or insurance. Each of our systems receives millions of inquiries each month from prospective lenders, insurers, employers, property managers, and others with a permissible purpose under the Fair Credit Reporting Act. All of this information is available to the individual consumer, on demand, and at no cost if there has been a notice of adverse action.
2. Improved Risk Segmentation & Pricing. Uniform application of decision criteria utilizing a credit bureau-based score can result in a loan portfolio that can be expected to perform with greater predictability over time. Predictability of risk is important to both risk managers and consumers, because the more predictable the risk, the less hedging must be built into the price of the financial instrument, including insurance policies. Commissioner Fitzgerald has already heard considerable testimony from model developers and representatives in the insurance industry, in the previous five hearings, on the effectiveness of insurance scoring that incorporate credit report information.
3. Scalability of Systems. Scalability is a third important advantage to insurers using credit scores. Decision making systems using scoring models can be scaled in two important ways: 1) They are independent of volume. They can be used to uniformly evaluate 10 or 1,000 or 1,000,000 decisions each day. 2) They can be scaled to create tiers of risk. A binary yes/no decision is no longer the only option. Interest or premium rates or other levels

of service can be offered to consumers based on the risk assessment reflected in the score. Because they provide a very granular scale (e.g. point ranges from 300 to 850), risk managers can adjust the decision points on the scoring model as other variables change. For insurance, this implies the ability to move away from less discrete rate groups such as “premium, standard and non-standard” and toward more finely tuned pricing strategies that more closely correspond to the degree of risk.

4. Promotes Competition. The use of insurance credit scores – by providing a tool that is scalable, objective, and actuarially sound – helps auto, property and casualty insurers to compete nationally and in previously underserved areas. This lowering of barriers to competition lowers costs and thus can lead to more choices for consumers in the marketplace. The increased competition among auto, property and casualty insurance providers in the United States in the past 10 years – both via direct mail campaigns and via the internet – is in part attributable to the deployment of decision systems that use credit scores.
5. Consumers’ Fair Credit Reporting Act Rights. The federal Fair Credit Reporting Act creates important consumer rights concerning notice of adverse action, rights to access all information held by consumer reporting agencies, rights to dispute that information (with an investigation procedure that places the burden of re-verification on the credit bureau and the data furnisher – not on the consumer), and finally, rights to have prior recipients of reports notified when there are corrections to the file as a result of a consumer’s dispute. This body of rights has been law for over 30 years, and as such is one of the United States’ oldest privacy laws, providing a framework of fair information practices. When insurers decide to factor in credit information into their underwriting decisions, they incur the obligations, and their customers benefit from the rights, provided for in the FCRA.

Policy Challenges with the Use of Credit Scores

Finally, we recognize that consumers and policy makers have expressed concerns on the practice of using credit scores in underwriting. In closing, I would like to offer TransUnion’s perspective on four of these:

1. Uniform Application. It is important that insurers using credit scores apply them uniformly. They must be used for all populations, not just in specific geographic or demographic groupings. Also, that if there is a change in the credit information which may result in a new score, some mechanism should exist for regularly re-checking and possibly re-pricing the premium payment. The federal Fair Credit Reporting Act requires

us to provide a notice to the insurers, upon the request of the consumer, whenever there is a change in the consumer's credit report as a result of a dispute.

2. Not Sole Factor. Our standard contractual agreement with our insurance customers using our Fair Isaac-developed ASSIST model provides that factors other than the ASSIST score must be used in the underwriting decision. We support regulations that prohibit the sole use of credit or insurance scores for underwriting decisions.
3. Credit Scores Not a Proxy for Other Decision Criteria. We all recognize that there are other underwriting and rate-setting factors such as prior claims experience (both of the individual and of the geographic area), the age of the individual, and the amount of risk exposure. We believe it's important that notices on adverse actions, which point toward credit information, make clear when other contributing factors are present.
4. Consumer Education Concerning Credit Scores. We recognize the educational role that credit bureaus have in helping consumers understand credit scores. In May 2000 TransUnion committed to providing consumers with a score disclosure, at the consumers' request, as part of every consumer file disclosure. In June 2001, we implemented that system, and since that time about 60% of the consumers who request a file disclosure also ask to receive a credit score disclosure. We don't believe we can go beyond this general educational function because we, quite properly, don't have access to the decision criteria of our individual customers – credit grantors or insurers. We hold only this one piece of the multiple-factor decision criteria.

Conclusion

In summary, the use of credit information in insurance underwriting is providing the opportunity for fairer pricing, as well as for more competition. The information is objective and comprehensive, and is clearly related to loss ratios. For those adversely affected by the use of credit reports and credit scores, the federal Fair Credit Reporting Act[i] provides a clear framework of consumer rights for notice, access, correction of inaccurate data and notification of prior report recipients. Credit reporting agencies don't have – and we cannot have – access to all the variables that go into a credit lending or underwriting decision. However, we recognize the educational role that we have in providing information to consumers about credit scores. We are all engaged in fulfilling our educational function by providing score information to consumers, as well as in meeting all our obligations under the Fair Credit Reporting Act.

Thank you this opportunity to present this information. Do you have any questions for me today?

[i] 15 U.S.C. 1681 et seq.